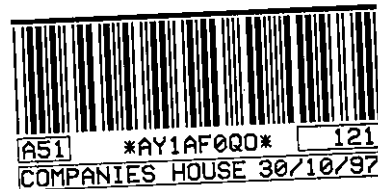


COMPANY NUMBER 512409

## REPORT AND ACCOUNTS

Smith & Nephew Research Limited

31 December 1996



**Smith & Nephew Research Limited**

*Registered No.512409*

**Directors**

Dr PH Bentley  
Dr M Horlington  
Dr JG Lloyd-Jones  
Dr A Suggett

**Secretary**

S Bentley

**Auditors**

Ernst & Young  
PO Box 3  
Lowgate House  
Lowgate  
Hull  
HU1 1JJ

**Registered office**

Group Research Centre  
York Science Park  
Heslington  
York  
YO1 5DF

# Smith & Nephew Research Limited

## Directors' report

The Directors present their report and accounts for the year ended 31 December 1996.

### Activities and review of operations

The principal activity of the Company is scientific research.

The main areas of activity relate to medical devices.

The Company's research, development and related activities will continue to focus on medical and healthcare interests such as wound healing, orthopaedics, arthroscopy, casting and bandaging.

### Results and dividends

The result for the year attributable to shareholders amounts to £nil (1995: loss of £207,000) and is dealt with as shown in the profit and loss account. The Directors do not recommend the payment of a final dividend (1995: nil).

### Fixed assets

Movements in fixed assets are shown in note 8 to the accounts.

### Charitable and Political Contributions

The Company made charitable contributions in the year of £4,000 (1995: £4,000). No political contributions were made.

### Directors

The Directors of the Company at the date of this report are those listed on page 1.

### Directors' interests

None of the Directors has any beneficial interest in the shares of the Company. The interests of the Directors in the share capital of the ultimate parent company are as follows:

### Interests in ordinary shares of 10p each:

	At 31 December 1996	At 1 January 1996
Dr PH Bentley	-	-
Dr M Horlington	40,426	43,542
Dr JG Lloyd-Jones	1,062	1,062
Dr A Suggett	32,453	31,657

# Smith & Nephew Research Limited

## Directors' report

### Options over ordinary shares of 10p each

	At 31 December 1996	At 1 January 1996	Options granted during the year	Options exercised during the year
Dr PH Bentley	52,500	52,500	-	-
Dr M Horlington	7,500	11,390	-	3,890
Dr JG Lloyd-Jones	91,634	80,000	11,634	-
Dr A Suggett	92,893	52,893	40,000	-

The options granted under the Share Option Schemes are exercisable between 1997 and 2006 at prices between 93.5 pence and 195.5 pence per share.

There were no other notifiable interests.

### Employees

During the financial year we have continued to provide employees with relevant information and to seek their views on matters of common concern both through their representatives and through line managers. This has been reinforced by the Group arrangements for communication through the Smith & Nephew Reporter and the granting of options under the terms of the Employee Share Option Scheme.

The training and development of employee groups are monitored regularly and appropriate training and development given using both internal and external resources.

The Company encourages the employment of disabled people and other disadvantaged minorities. Particular efforts are made to retain employees who become disabled during their employment.

### Directors' responsibility for the accounts

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that the accounts comply with the above requirements.

# **Smith & Nephew Research Limited**

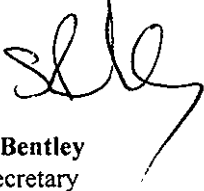
## **Directors' report**

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Auditors**

Ernst & Young have expressed their willingness to continue in office as Auditors and a resolution proposing their reappointment will be submitted at the forthcoming General Meeting.

By order of the Board



**S Bentley**  
Secretary

22 October 1997

## **REPORT OF THE AUDITORS**

to the members of Smith & Nephew Research Limited

We have audited the accounts on pages 6 to 16 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and on the basis of the accounting policies set out on pages 8 and 9.

### **Respective responsibilities of Directors and Auditors**

As described on pages 3 and 4 the Company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

### **Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

### **Opinion**

In our opinion the accounts give a true and fair view of the state of the Company's affairs as at 31 December 1996 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Ernst & Young**  
Chartered Accountants  
Registered Auditor  
Hull

22 October 1997

## Smith & Nephew Research Limited

### Profit and loss account

*for the year ended 31 December 1996*

	Notes	1996 £000	1995 £000
Turnover - continuing operations	2	12,224	10,568
Cost of sales		(8,972)	(7,642)
		-----	-----
Gross profit		3,252	2,926
Net operating expenses		(3,102)	(2,777)
Exceptional item - waiver of group loan		205	-
		-----	-----
Operating profit - continuing operations	3	355	149
Net cost of borrowings	6	(150)	(150)
		-----	-----
Loss on ordinary activities before taxation		205	(1)
Taxation	7	(205)	(206)
		-----	-----
Loss for the year attributable to shareholders		-	(207)
		=====	=====

A statement of the movement on reserves is set out in note 15.

### Statement of total recognised gains and losses

There are no recognised gains or losses attributable to shareholders of the Company in the year ended 31 December 1996 (loss of £207,000 in the year ended 31 December 1995).


# Smith & Nephew Research Limited

## Balance sheet

at 31 December 1996

	Notes	1996 £000	1995 £000
<b>Fixed assets</b>			
Tangible assets	8	9,174	9,823
		-----	-----
<b>Current assets</b>			
Stocks	9	26	28
Debtors	10	2,875	3,064
Cash at bank and in hand		2,732	2,124
		-----	-----
		5,633	5,216
		-----	-----
<b>Creditors: amounts falling due within one year</b>			
Other creditors	11	(12,306)	(12,538)
		-----	-----
<b>Net current liabilities</b>		(6,673)	(7,322)
		-----	-----
<b>Total assets less current liabilities</b>		2,501	2,501
<b>Creditors: amounts falling due after more than one year</b>			
6% Convertible unsecured loan stock	12	(2,500)	(2,500)
		-----	-----
		1	1
		=====	=====
<b>Capital and reserves</b>			
Called up share capital	14	25	25
Other reserves		1	1
Profit and loss account - adverse balance	15	(25)	(25)
		-----	-----
<b>Equity shareholders' funds</b>		1	1
		=====	=====

Approved by the Board on 22 October 1997

  
Dr A Suggett  
Director



# **Smith & Nephew Research Limited**

## **Notes to the accounts**

*at 31 December 1996*

### **1 Accounting policies**

The accounts have been prepared under the historical cost convention modified to include certain assets at valuation and in accordance with applicable accounting standards.

#### **Depreciation**

Depreciation is charged on the following basis:

Freehold land and a scheduled building with infinite life are not depreciated.

Freehold buildings are depreciated on a straight-line basis at 1% of cost or valuation.

Plant, equipment and vehicles are depreciated over lives ranging between three and twenty years by equal annual instalments to write down the assets to their estimated disposal value at the end of their working lives.

#### **Leases**

Assets held under finance leases are capitalised as tangible fixed assets and depreciated accordingly. The capital element of future lease payments is included in borrowings and interest is charged to profit before taxation on a reducing balance basis over the term of the lease. Rentals under operating leases are charged to profit before taxation as incurred.

#### **Stocks**

Stocks are valued at the lower of cost and net realisable value.

#### **Deferred taxation**

Deferred taxation is provided using the liability method on timing differences between tax and accounting treatments where these are likely to crystallise in the foreseeable future.

#### **Research and development**

Revenue expenditure on research and development and on patents and trademarks is written off as incurred.

# Smith & Nephew Research Limited

## Notes to the accounts

at 31 December 1996

### 1 Accounting policies (continued)

#### Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of transaction. Monetary assets and liabilities are retranslated at the rate of exchange ruling at the balance sheet date. All differences are dealt with in the profit and loss account.

#### Pensions

The majority of the Company's employees are members of the Smith & Nephew UK Pension Fund, a defined benefit plan for the Group's UK resident employees. Pension costs are those paid to the Fund. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected working lives of employees in proportion to their expected payroll costs. Such variations are dealt with in the accounts of the ultimate parent company, and are not passed down to subsidiary companies. The pension costs payable by the subsidiary companies are not adjusted accordingly.

### 2 Turnover

Turnover comprises the invoice value of goods and services supplied by the Company exclusive of V.A.T.

#### Segmental analysis

Turnover relates to the one principal activity of the Company.

Analysis of turnover by geographical market:

	Turnover	
	1996	1995
	£000	£000
United Kingdom	3,375	2,354
Continental Europe	1,665	1,819
America	5,881	5,197
Africa, Asia and Australasia	1,303	1,198
	-----	-----
	12,224	10,568
	=====	=====

# Smith & Nephew Research Limited

## Notes to the accounts

at 31 December 1996

### 3 Operating profit

	1996 £000	1995 £000
Turnover	12,224	10,568
Cost of sales	(8,972)	(7,642)
Net operating expenses:		
Administrative expenses	(3,106)	(2,812)
Other operating income	4	35
	(3,102)	(2,777)
Exceptional item - waiver of group loan	205	-
Operating profit	355	149

On 13 October 1997 an amount of £205,000, being part of an amount due to a group undertaking as at 31 December 1996, was waived.

All turnover and operating profits relate to continuing operations.

The Company incurred and recharged £1,100,000 of expenditure in the normal course of business with a joint venture company. The debtor at the year end was £430,000.

Operating profit is stated after charging:	1996 £000	1995 £000
Depreciation	1,151	1,201
Operating lease rentals		
land and buildings	1,038	1,031
plant and machinery	171	118
Auditors' remuneration - audit	11	11
Auditors' remuneration - non-audit	4	-
Loss on disposal of fixed assets	7	46

# Smith & Nephew Research Limited

## Notes to the accounts

at 31 December 1996

4	Employees	1996 £000	1995 £000
	Staff costs:		
	Wages and salaries	4,100	3,638
	Social security costs	419	375
	Other pension costs	-	31
		-----	-----
		4,519	4,044
		=====	=====

The average weekly number of employees during the year was as follows:

	1996 Number	1995 Number
Research and development	183	176
	=====	=====

5	Directors' emoluments	1996 £000	1995 £000
	Emoluments, including pension contributions	312	303
		=====	=====
		1996 £000	1995 £000
	Emoluments of the Chairman and highest paid Director	104	103
		=====	=====

The number of Directors, including the above, whose emoluments (excluding pension contributions) fall within the respective brackets are set out below.

	Number within the range	
	1996	1995
£55,001 - £60,000	1	2
£60,001 - £65,000	1	-
£80,001 - £85,000	-	1
£85,001 - £90,000	1	-
£100,001 - £105,000	1	1

# Smith & Nephew Research Limited

## Notes to the accounts

at 31 December 1996

6	Net cost of borrowings	1996 £000	1995 £000
	Interest payable to the ultimate parent undertaking:		
	On group borrowings	150 =====	150 =====

## 7 Taxation

The charge/(credit) based on the profit for the year comprises:

	1996 £000	1995 £000
UK Corporation tax at 33%	205	238
ACT surrender from fellow subsidiary undertaking	-	(32)
	----- 205 =====	----- 206 =====

Deferred tax not provided in the year amounts to a credit of £169,000 (1995: credit of £208,000) in respect of accelerated capital allowances.

The corporation tax charge is increased by £39,000 in respect of items not allowable for taxation purposes.

# Smith & Nephew Research Limited

## Notes to the accounts

at 31 December 1996

### 8 Tangible fixed assets

	Freehold land and buildings £000	Plant equipment and vehicles £000	Total £000
Cost or valuation			
At 1 January 1996	2,117	14,907	17,024
Additions	-	626	626
Disposals	-	(649)	(649)
	-----	-----	-----
At 31 December 1996	2,117	14,884	17,001
	=====	=====	=====
Analysis:			
Cost	1,742	14,884	16,626
1972 Valuation	375	-	375
	-----	-----	-----
	2,117	14,884	17,001
	=====	=====	=====
Depreciation			
At 1 January 1996	211	6,990	7,201
Charge for the year	17	1,134	1,151
Disposals	-	(525)	(525)
	-----	-----	-----
At 31 December 1996	228	7,599	7,827
	=====	=====	=====
Net book amounts			
At 31 December 1996	1,889	7,285	9,174
	=====	=====	=====
At 31 December 1995	1,906	7,917	9,823
	=====	=====	=====
On historical cost basis freehold property would have been included at:		£000	
Cost		2,059	
Accumulated depreciation		(217)	
		-----	
		1,842	
		=====	

The freehold property has been vacated following the relocation to York and is presently being marketed for a value in excess of the book value.

# Smith & Nephew Research Limited

## Notes to the accounts

at 31 December 1996

<b>9</b>	<b>Stocks</b>	<b>1996</b> <b>£000</b>	<b>1995</b> <b>£000</b>
	Raw materials and consumables	26 =====	28 =====
The difference between the purchase price of stocks and their replacement cost is not material.			
<b>10</b>	<b>Debtors</b>	<b>1996</b> <b>£000</b>	<b>1995</b> <b>£000</b>
	Trade debtors	501	194
	Amounts owed by group undertakings	1,755	2,065
	Other debtors	30	144
	Prepayments and accrued income	537	661
	Corporation tax	52	-
		2,875 =====	3,064 =====
<b>11</b>	<b>Creditors: amounts falling due within one year</b>	<b>1996</b> <b>£000</b>	<b>1995</b> <b>£000</b>
	Other creditors:		
	Trade creditors	867	1,186
	Amounts owed to group undertakings	11,158	11,071
	Social security and other taxes	281	145
	Corporation tax	-	136
		12,306 =====	12,538 =====
<b>12</b>	<b>Creditors: amounts falling due after more than one year</b>	<b>1996</b> <b>£000</b>	<b>1995</b> <b>£000</b>
	Amount owed to ultimate parent undertaking	2,500 =====	2,500 =====

The amount owed to the ultimate parent undertaking is in respect of 6% Convertible Unsecured Loan Stock. This may be converted at any time at the option of the Company or of the stockholder at the rate of one ordinary share of £1 each for each £1 of stock. The Company may at any time purchase any of the stock at par and in the event of certain specified circumstances the stockholder can require repayment.

# Smith & Nephew Research Limited

## Notes to the accounts

at 31 December 1996

### 13 Deferred taxation

No provision for deferred taxation at 31 December 1996 is required. Potential tax liabilities, which are not expected to crystallise in the foreseeable future, exist in respect of:

	1996 £000	1995 £000
Fixed asset timing differences	3,011 =====	3,180 =====

### 14 Called up share capital

	Authorised 1996 and 1995 £000	Allotted, called up and fully paid 1996 and 1995 £000
25,000 Ordinary shares of £1 each	25 =====	25 =====

### 15 Profit and loss account

	£000
Balance at 1 January 1996	(25)
Result for the year	-
Balance at 31 December 1996	(25) =====

### 16 Reconciliation of movements in shareholders' funds

	1996 £000	1995 £000
Loss for the year	-	(207)
Opening shareholders' funds	1	208
Closing shareholders' funds	1 =====	1 =====



# Smith & Nephew Research Limited

## Notes to the accounts

at 31 December 1996

### 17 Financial commitments

Capital expenditure contracted but not provided for in these accounts amounted to £68,000 (1995: £135,000).

The annual commitments under operating leases were as set out below:

	Land and buildings		Other assets	
	1996 £000	1995 £000	1996 £000	1995 £000
Operating leases which expire:				
Within one year	-	-	29	9
After one and before five years	-	-	89	95
After five years	1,038	1,038	2	-
	<u>1,038</u>	<u>1,038</u>	<u>120</u>	<u>104</u>
	=====	=====	=====	=====

### 18 Contingent Liabilities

The Company, together with Smith & Nephew plc and certain fellow subsidiary undertakings, has entered into a guarantee with the National Westminster Bank plc in respect of the net overdrafts of the other parties to the guarantee. At 31 December 1996 the Company's contingent liability under the guarantee amounted to £22,544,978 (1995: £16,490,935).

### 19 Pension commitments

The majority of the Company's employees are members of the Smith & Nephew UK Pension Fund, a defined benefit plan which is funded by the payment of contributions. The Smith & Nephew UK Pension Fund is a separately administered trust fund.

The contributions to the Fund are determined with the advice of an independent qualified actuary on the basis of regular valuations.

Information in respect of the actuarial positions of Group schemes is given in the accounts of the ultimate parent company, Smith & Nephew plc.

### 20 Cash flow statement

The Company is not required to produce a cash flow statement. It is a wholly owned subsidiary of Smith & Nephew plc which prepares a consolidated cash flow statement as required under FRS1(Revised).

### 21 Ultimate parent undertaking

The parent undertaking of the group of undertakings for which group accounts are drawn up and which the Company is a member is Smith & Nephew plc, registered in England and Wales. Smith & Nephew plc is also the Company's ultimate parent company. Copies of the financial statements of Smith & Nephew plc can be obtained from 2 Temple Place, Victoria Embankment, London, WC2R 3BP.

The company has taken advantage of the exemption in FRS8 from disclosing transactions with related parties that are part of the Smith & Nephew plc group.